Financing Africa's late industrialisation: the case for 'national savings' over 'foreign direct investment (FDI)'

ABSTRACT

The study analyses and compares two competing options concerned with financing Africa's late industrialisation. It investigates which one between 'foreign direct investment (FDI)' and a country's own 'national savings' is a better means to finance late industrialisation. The paper critically analyses rival arguments by proponents of two schools of thought on the question of how to finance late industrialisation on a nation-wide basis, namely: (i) Neo-liberal economics (the 'Washington-consensus'; and, (ii) Neo-Marxist political economy. The study evaluates the impact of foreign direct investment (FDI) coming to Africa between 1880 and 2023 and offers the verdict that FDI has

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generally had a negative effective on African countries.

***Key words*:**

Multinational corporations, foreign direct investment, underdevelopment, late industrialisation, economic diversification, neo-liberal economics, globalisation

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JEL Classification: F63, F53, F23, F21, F11, F02.

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1. Introduction

Developing countries differ in terms of population, national income, geographical size, natural resource endowment and in the level of skilled manpower in science, engineering and management. "Underdevelopment" in its complexity forms the main reason why developing countries pursue foreign investment. A typical underdeveloped country is understood to lack a viable industrial sector; its revenues are drawn from agricultural production or from oil, gas or mineral resource extraction with minimal value-addition (Acemoglu & Robinson, 2010; 2013). Political economists warn that dependence on primary commodities entails "unequal exchange" and "super-exploitation" to the cost of primary commodity producers and suggest possibilities for "de-linking" from such arrangements (Amin, 1977; 2012; Marini, 2022).

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Africa is reported to host vast mineral and energy resources (ECA, 2016; 2022). Most of the resource-rich African countries lack the capital resources needed to process and thus, add value to their natural resources. The presence of significant natural resources has not had a positive impact on poverty eradication, accountable governance, diversification of the economy and economic development in Africa (Nyong'o *et al*., 2002). With few exceptions such as Tunisia and Botswana that managed to use the natural resource endowment to establish extensive social welfare programs for their citizens, the majority of African countries have not been successful in using hydropower, oil, gas, cobalt, coal, diamonds, gold, iron ore, platinum, uranium, titanium and many other resources found on their territory as a catalyst for industrialisation (Davis, 1995; Thomson, 2007).

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"Late industrialisation" (Amsden, 1992; Foster, 2014) refers to the transformation of African, Asian and Latin American countries from dependence on primary commodity exports which is typical of colonial economic structures. The study analyses and

compares two competing options concerning the financing of Africa's industrialisation, a project claimed to be overdue, desperately-needed and a game-changer for Africa (AU, 1980; Nyong'o *et al.*, 2002; ECA, 2016; 2022).

It investigates whether 'foreign direct investment (FDI)' is to be preferred over a country's own 'national savings' as a means to finance late industrialisation.

The paper critically analyses rival arguments by proponents of two schools of thought on the question of how to finance late industrialisation on a nation-wide basis, namely:

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i. Neo-liberal economics (The 'Washington-consensus'), and;
ii. Neo-Marxist political economy.

The research is divided into five parts: part II outlines the structure of the global economy and describes trends in the global economy from the point of view of "Africa's interests". Part III takes a historical turn and traces Africa's "role" in the global economy by revisiting the economic and social history of African

countries between the nineteenth and twenty-first centuries. The experience of trade between Africa and other regions of the world, particularly Europe, is used as the background upon which to develop an understanding of how the world economy has been operated and still is operated in relation to Africa. Part IV presents Gillespie's theoretical framework concerning relations between foreign investors, local industrialists and governments in developing countries. The concluding section forms the main thrust of the study. It juxtaposes arguments deriving from neo-liberal economics on the question of late industrialisation to the tenets of neo-Marxist political economy. On the strength of a historical examination of the impact of FDI coming to Africa, the paper offers the verdict that FDI has generally had a negative effective on African countries.

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2. Africa, globalisation and asymmetries in the world economy: an overview

The presence of millions of the unemployed has defined the economies of African countries since the mid-1970s (Mazrui, 1972; Todaro, 1981; Gibbon, 1993; Nyong'o et al, 2002; Ademujobi & Olukoshi, 2009; Kinyua, 2016). The high numbers of unemployed youth and adults in Africa's cities and rural areas recorded since the early 1980s into the second decade of the twenty-first century is indicative that the condition could crystallise as a semi-permanent feature of African countries' performance under capitalism, rather than being a short-lived phase in their eventual development. Inappropriate technology, endemic unemployment and redundancies have characterised many African economies for more than forty years (Saul, 1979; Kaplinsky, 1980; Leys, 1996; Amin, 1977; 2016); the foregoing situation cannot realistically be viewed as an easily-reversible or, momentary trend.

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Nkrumah was reproachful towards commentators for writing about Africa "as though Africa lies outside the main stream of world historical development – a separate entity to which the social, economic and political patterns of the world do not apply" (1970: 10). Jones (2005) claims that any serious explanation for inequality and endemic poverty in the world economy would need to theorise the history, development and causal structures of capitalism in both colonial and neo-colonial phases. Rodney (2009) traces the modern social condition of poverty in Africa to the trans-Atlantic slave trade witnessed between 1500CE-1865CE. According to Rodney (1969; 1972), Africa's marginal position in the world is a global phenomenon; or, the outcome of historical processes of social change rooted in world history and reproduced through social relations which are globally structured. Chanock (2002; 44) claims that the failures of the States created by colonialism and their powerlessness in relation to the goals of development can be directly linked to "the structure and workings of the world economy." He concludes that the multiple failures reported about the post-

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colonial State in Africa "arise from premises given to Africa, not originating in it" (Chanock, 2002; 44).

The forces that established peripheral agricultural and raw mineral specialisation and undergirded the western European and North American lead in industrial manufacturing throughout the twentieth century did not fold away from the world economy with decolonisation (Davidson, 1992; 1994). In some cases, foreign interests were subject to close protection after independence as under colonialism; for example, the case of France and former colonies in West Africa and equatorial Africa (Tuteng, 1976; Murray, 2018). As post-colonial history revealed, political independence did not result in an end to dependence on former imperial centres for capital, technology and technical knowledge. Upon achievement of republic status, many former colonies discovered that sovereignty was more of a political concept than economic phenomenon (Fanon, 1961; Nkrumah, 1970; Davidson, 1994; Soranarajah, 2019).

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The reality of underdevelopment is substantially rooted in colonialism and its legacies which, up to

the present-time, have not been transcended by many countries in the global South (Rodney, 1972; Brett, 1974; Nyong'o 1992; 2002; Davidson, 1994; Amadi, 2012). Colonial rule imposes certain economic structures on colonies, different from the economic structures of colonising countries. The internal or domestic market of a given colony is often not the main destination for items which the colony produces. Colonial economies are outward-looking, "disarticulated" or extraverted by design and in their functioning (Baran, 1957; Dumont, 1966; Brett, 1974; Nyong'o, 1992; Shivji, 2009). Such economies are vulnerable to external factors beyond their control (Frank, 1969; 2016; Amin, 1972; 1977; 2012; 2014).

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The classical Marxist critique of imperialism understands "the Manchester system" to entail "the capture of colonies" as a market for surplus industrial production from the imperial country, resulting in de-industrialisation of colonies, Mandel describes:

> It was the conditions of political inequality, the unequal treaties imposed by Britain on India and

> China, that enabled Britain to conquer the world market and obtain a monopoly of productivity. Once this conquest had been achieved, the proclamation of the universal dogma of free trade, now imposed by force on yesterday's victims, was to become the essential weapon wielded by Britain (and to some degree also by France, Belgium, the Netherlands, etc.) to destroy existing industry in the Asian countries and delay their industrialisation for half a century (Mandel, 1970; 447).

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In the twenty-first century, the architecture of global trade relations is reflective of the colonial period in the sense that many developing countries are confined to producing what previously used to be known as "products of the colonies" (Dumont, 1966). Reinert (2009) faults the conventional

wisdom found in standard economics texts stretching back to Adam Smith in the eighteenth century for its teaching that England grew rich on the back of free trade policies. He contends that free trade principles, as espoused by the British between 1815 and the beginning of imperialism in the 1870s, were simply, "rhetoric"; he argues that the "pathway" to the industrialisation of Britain did *not* owe to an entrepreneurial or technocratic culture of the English, as is assumed in some circles, but to an institutional framework spearheaded by the excise tax and a wall of tariffs (Reinert, 2009; 57-8). In the 1870s, France and Germany became industrialised countries and emerged as challengers to Britain's dominant position in the world, marking the end of free trade as the organising logic for the world system and inaugurating the imperialist era that lasted until the 1960s and 70s in Africa, excluding Namibia and South Africa (Davidson, 1994). A political factor such as loss of sovereignty or, its recapture by colonised peoples entails significant and long-lasting economic consequences (Cabral, 2023). Sovereignty is related directly to the issue

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whether the social formation in question is able to marshal the political, economic, social and other resources needed to actualise a national program of industrialisation.

China's State-led industrialisation and economic transformation from 1949 to 2023, counterposed to the pre-1949 period whereby China was ruled by UK and Japan in turn, can be cited in refutation of the tenets of market-fundamentalism (Fairbank, 1991). It bears remark that during the present-day period key African countries such as Angola, Kenya, South Africa and Zambia are trading more with China than amongst themselves or with the former colonising countries.

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Globalisation has not provided greater market access for African products apart from traditional export products. Countries including the US, UK, France, Japan, Germany and Spain continue to subsidise their domestic agricultural sectors at the cost of African agricultural producers pursuing their "comparative advantage" according to the teachings of neo-liberal economic policy (Oyejide & Njinkeu, 2008). The European Union (EU) is at present the

largest export market for African products. The EU imposes a tariff (tax) on processed agricultural products such as chocolate or processed fruit juice originating from Africa. Value-added commodities such as chocolate which Ghana or the Ivory Coast could export to the EU market attract a tax, known in the EU as a "non-zero preferential tariff".

The situation is vastly different, however, where it concerns exports of raw and semi-processed cocoa, coffee, tea or crude oil and unprocessed natural minerals; for the latter, the preferential duty rate is zero within the EU market (Oduro & Kwadzo, 2008). By design, therefore, the EU taxation framework encourages exports of African agricultural goods and minerals in raw or semi-processed form; thereby, reducing the ability of exports of processed goods from African countries to compete with domestic EU producers. It is clear that EU taxation policy hinders Africa's industrialisation by levying a tax on African processed goods while granting tax-free access to raw or semi-processed products from Africa (Museveni, 2023).

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Multinational/transnational corporations (MNCs/TNCs) are the vehicle via which globalisation is spread out around the world. Whether TNCs are the forerunners of "development" in developing countries or part of the apparatus of "underdevelopment" or "dependent-development" of those countries remains a subject for intense theoretical contestation (Frank, 1969; 2016; Amin, 2016; Bernstein, 1977: Moyo, 2002; Tandon, 2002). The 1970s and '80s oversaw a lively theoretical debate about the respective roles of TNCS and State elites in Africa and Asia as catalysts for 'development' (Saul, 1973;1979; Munck, 1981; Leys, 1996). The debates between neo-liberal economists, dependency-theorists/neo-Marxists and orthodox Marxists largely fizzled out towards the late 1980s as neo-liberalism was gaining ascendancy (Leys, 1996).

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Some writers are convinced that globalisation has resulted in impressive poverty reduction in major emerging markets countries and improvements in welfare in industrialised countries (Mann, 2006). On that same breath, it is undeniable that fossil-fuel

extraction, large-scale mining and commercial agriculture undertaken by MNCs has led to destruction of the ecological environment and human rights abuses in both developed and developing countries (Duruigbo, 2001; Forsythe, 2006; Tladi, 2007; Franko, 2020). In the majority of texts by writers who subscribe to the neo-liberal persuasion, there appears to be an over-emphasis on the weaknesses of State institutions in resource-rich developing countries, leaving the conduct of multinational corporations in those countries largely unexamined (Carlsson, 1998; Meredith, 2006; Auty, 2001; de Walle, 2001). The conduct of powerful private corporations is rarely addressed by research on the correlation between the accountability of State institutions in resource-rich developing countries and equitable economic and social development based on natural resource extraction, the so-called 'resource-curse' school (Auty, 1993; 2001; Gamba & Cornwell, 2000; Gelb, 1988). In the majority of mainstream economics texts, MNCs are pictured as playing a generally positive role in host countries (Wienthal & Luong, 2006; Auty, 1993; 2001).

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The logging of indigenous, tropical forests to make way for large-scale plantations and extraction of energy resources such as coal or petroleum all result in destruction of the ecological environment, contributing to climate change (Tladi, 2007). Corporate conduct affects civil and political rights, environmental rights, workers' rights and economic and social rights not only in the extractive sector, but also in industry/manufacturing and the service sector (Willes, 2006).

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Recent studies delineating the character of globalisation underline "the growth of illegal and illicit operations" in the international economy and warn that "the boundaries between state institutions and illegality are increasingly hard to discern, as corruption and organised crime [have] become pervasive aspects of social organisation" (Franko, 2020). For some countries, the challenge of corruption is so widespread as to threaten macro-economic stability and even the viability of the nation-state itself (Moshpouri *et al.*, 2009). Other countries have benefitted from illicit financial flows by creating legal frameworks that guarantee absolute

confidentiality to owners of vast amounts of money wishing to remain anonymous. The US state of Delaware, Luxembourg, Switzerland and offshore tax secrecy jurisdictions or tax havens (many of them under UK jurisdiction such as Jersey Island, the Cayman Islands, Isle of Man and the British Virgin Islands), have created a parallel financial universe to the world economy by offering their services to corrupt TNCs and political leaders such as Nigeria's president Abacha who died in 1998 having looted an estimated five billion US dollars from the country (ICIJ, 2016).

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It constitutes a practical matter of singular importance for developing countries to account for the totality of activities undertaken by TNCs based in their territory in terms of human wellbeing and environmental sustainability. The use of transfer (mis)pricing, tax avoidance, tax havens and aggressive tax planning by multinational corporations operating in the extractive sector in developing countries merits attention by scholars and African policy-makers and institutions, scholars and civil society (Franko, 2020). The research

recommends that African countries need to devise taxation-based responses to transfer pricing and other instances of non-arm's length dealing which drastically lower the tax obligations of multinationals.

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3. Africa and the world economy (1850-2023CE)

Gutkind and Wallerstein (1976) refer to "a chain of historical causation" linking developed and developing countries economically over the five centuries from year 1500CE. They argue that the political economy of contemporary African societies cannot be understood without appreciating the chain of historical causation linking Africa to the world's capitalist economic system. In Africa, as in other underdeveloped nations, they argue, the early stages of capitalist formation were violent and socially more destructive than at a later stage when the capitalist mode of production became entrenched and capitalists were more established and secure in their ability to control:

> The contemporary economy and polity of Africa, while its antecedents are indigenous, must be analysed in the context of the specifics of an evolving world system of economic and political relations starting from the sixteenth century, leading at first

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> to the gradual involvement of Africa with worldwide exchange relations and later, by the middle of the nineteenth century, into more direct incorporation and finally, by the twentieth century, to the subordination of the continent to the economic and political needs and objectives of the major Western powers (Gutkind & Wallerstein, 1976; 7).

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The integration of Africa into the world market during the nineteenth century is viewed by many writers as eventuating in widespread "chaos" being visited upon the continent's political and social institutions (Rodney, 1969; Amin, 1972; Gutkind & Wallerstein, 1976; Trimberger, 1979; Chanaiwa, 1981; Mikell, 1989). The impact of "the intrusive demands of the expanding western economic system" on pre-colonial African societies is also claimed to have been "diverse" (Mikell, 1989); therefore, requiring some context-specific analysis

(Berman, 1990). In some instances, the external capitalist penetration into Africa entailed the "ruthless enforcement" of pre-existing patron-client relationships, some with elements reminiscent of feudalism and slavery (Mikell, 1989). Elsewhere on the African continent, capitalist intrusion from Europe is claimed to have presented economic and political mobility for commoners, refashioning the pre-capitalist modes of social organisation (Dike, 1956; Rodney, 1969; Daaku, 1970; Wilks, 1975; Kea, 1982).

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Robinson points out that the encounter with European colonialism during the late nineteenth century resulted in a fundamental reorganisation of Africa's productive forces and priorities, and constitutes a pivotal event in the life-history of global capitalism:

> In Africa, whereas the slave trade had dislocated the reproductive cycles of certain social formations along the coasts of west and southern Africa, the "new imperialism" of monopoly

> capitalism demanded a more destructive form of appropriation and exploitation. The colonial state parasitised the peasants of the continent's agrarian hinterland, transforming traditional economic sectors from the project of reproduction into the source and support of forcibly-recruited labour and the sites of cash-crop monoculture and the extraction of minerals and raw materials (Robinson, 1983; 446).

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Mikell's (1989) pioneering study of cocoa production in Ghana faults most of the social science studies about contemporary Africa appearing in the three decades between 1960 and 1990, which she categorised into two groups. The first category is made up of studies that, in her view, "are too generalised" and is represented by "the macro-level analyses of Wallerstein (1974), Curtin (1984) and Wolf (1982)". This brand of political economy

scholarship is censured for harbouring "implicit assumptions of the passivity of the peripheral countries during exploitative capitalist relationships" (Mikell, 1989; xix).

In the second group are "synchronic" studies authored mainly by anthropologists. The main defect of the latter type of studies, according to Mikell, is the exclusive focus on small-scale societies, namely, a colonially-derived "tribe" or ethnic group occupying some geographical zone carved out by the colonial authority and designated as a native reserve (Bernardi, 1969; 1991; Saul, 1979; Fadiman, 1982; 1993).

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The common error of macro-level and micro-level studies of contemporary African societies, Mikell writes, lies in the creation of "disciplinary boundaries which isolated the study of social structures and processes from the study of power and bureaucracy and from the study of markets" (1989; xvii).

Mikell calls for a better theoretical framework that places "special emphasis" on economic and political structures as pivotal points for change as well as for

social disjuncture in African societies. She argues that the integration of African societies into the global economy needs to be viewed in "multi-level terms which reflect the interplay between African dynamics and of other global players" (Mikell, 1989; xviii).

To avoid the generalities that often characterise debates between dependency theorists and world systems analysts, scholars of contemporary African societies are cautioned to take adequate notice of African resistance to capitalist penetration from industrialised countries. More importantly, scholars are called upon to examine the process of social restructuring which continues to take place in Africa following the continent's integration into patterns of global capitalism during the early twentieth-century period (Mikell, 1989; xx).

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4. A typology of relations among foreign investors, local investors and government in the global South

Gillespie's study of inter-relations between foreign investors, local investors and government in Egypt during the 1970s and '80s eventuated in a useful conceptual/theoretical framework taking the form of "coalition cycles" (Gillespie, 1984). She explains that each of the three groups, i.e., foreign investors, local investors, and government, is capable of forming and dissolving various bipartite coalitions over time, with the other two. Three bipartite coalitions were posited, as follows:

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i. the development coalition

ii. the capitalist coalition

iii. the nationalist coalition

i. the development coalition

The *development coalition* refers to a coalition between government and foreign investors that offers foreign investors privileges beyond those given to local private investors. The bias in favour of

foreign investors by government is informed by the need to secure certain advantages such as capital, technology, foreign exchange and market access that are missing from local investors. This coalition is threatened with dissolution due to the conflict in goals between the foreign investor and the government: the former seeks profit; the latter is focused on national economic development (Ayanoose, 2017). The phenomenon is known as "lack of goal congruence", by analysts of the sociopolitical context of MNCs in developing countries (Mahmoud & Rice, 1991).

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ii. the capitalist coalition

The *capitalist coalition* refers to joint ventures between foreign and local investors. There is room for cooperation between local and foreign investors because foreign investors need local market knowledge such as distribution systems, while local investors need access to foreign technology and trademarks and view alliances with foreign investors as a buffer against local or international competition.

The main feature of the *capitalist coalition* is the attempt to influence the government to encourage private enterprise in general (Gillespie, 1984).

Where foreign firms are able to claim their names, market share and expertise as capital, all of which, consequently, are entitled to a share of the corporate profits, there is necessarily a reduction in the benefits of foreign investment to the loss of the host country.

iii. the nationalist coalition

Local investors grow in strength with more local ownership of enterprises, following an increase in joint ventures between foreign and local investors. Gillespie argues that when local investors are in a strong position in relation to foreign investors, they are likely to seek a *nationalist coalition* as opposed to a *capitalist coalition*. However, the *nationalist coalition*, just like the *development coalition*, is likely to flounder on lack of goal congruence between local investors and government. For example, local investors may avoid capital intensive projects while the government wants such projects in

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order to develop the country (Mahmoud and Rice, 1991).

Other writers have used the *bargaining power* concept to analyse relations between foreign investors and host governments (Moensch, 1988). Many developing countries undertook economic liberalisation as a means to gain technology transfer from foreign investors during the 1970s and '80s. Foreign firms with technology to offer were reported to occupy a strong bargaining position compared to firms lacking "the technology advantage" (Mahmoud & Rice, 1991).

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5. Towards a 'theory of development': neo-liberalism v neo-Marxist political economy

5.1 Neo-liberal economic thinking: a critical review

The privileging of civil and political rights over economic social and cultural rights is a common feature of liberal, western democracies such as the US and the UK. Private ownership of wealth combined with minimal social responsibilities on the part of the dominant economic class in society is another dominant feature of liberal, western democracy as practiced in the US and UK. The neoliberal framework of social organisation is presented as a worthwhile replacement for systems of social organisation found in African societies that are understood to be 'traditional', 'pre-capitalist' and 'non-feudal' whereby, "market-relations are not fully developed" (Hyden, 1983; Callaghay, 1988). In this perspective, African countries are pictured as lacking some or all of the Weberian characteristics mainly "the Protestant ethic", with its Calvinistic

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emphasis on saving rather than spending ones returns/profits (Mazrui, 1983; de Walle, 2001).

Neo-liberalism as fashioned by developed countries in western Europe and North America is an entire philosophy of life. It is a comprehensive view of what constitutes the good life. Neo-liberal economic theory views the State as a perennial 'loser' in 'every war against poverty' and designates 'the market' as the only viable solution to problems of mass poverty and underdevelopment (Streeten, 1992). Market-based transactions are claimed to have lower costs compared to a situation where government policy or action affects either output at firm-level or price (Bates, 1994).

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Neo-liberal policies have dominated the economic policy landscape of African countries from the 1980s to the present-day period at the urging of the IMF, the World Bank and developed countries (Gibbon, 1993; Mkandawire, 2002; Murray, 2018). Neo-liberal economic policy entails drastic reductions in the number of civil servants, massive cuts in government expenditure on health-care, education and housing, removal of financial controls, free

exchange rates and privatisation of State-owned corporations; all with the primary aim to take the State out of the domestic economy (Kinyua, 2016). The post-1989 period has seen serious competition for foreign investment resources among developing countries. Since the mid-1990s, global markets expanded significantly as a result of trade agreements, bilateral investment treaties and domestic liberalisation and privatisation (Sornarajah, 2019). Consequently, the rights of multinational/transnational corporations (MNCs/TNCs) became more securely anchored in national laws and increasingly defended through compulsory arbitration before international tribunals (Kaushal, 2009).

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Jones (2005) points out that the very notion of 'development' is imbued with directional teleology and a sense of progress. During the 1960s and '70s, modernisation theory rendered this explicit, with its formulation of a transition from an early stage of tradition (pre-modern, pre-capitalist, undeveloped, backward, agricultural, rural, irrational, tribal, poor) to the later, further advanced stage of modernity

(capitalist, industrial, urban, rational, secular, wealthy and prosperous) (Jones, 2005; 990). According to modernisation theorists, this transition was achieved by economic growth and the formation of liberal, pluralist political institutions and culture in western Europe and North America in the late nineteenth and early-twentieth-century period. Development, in this perspective, is understood as the spread of the western Europe/North American 'way of life' across the world.

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Mainstream development theorists such as R.F. Harrod claim that capital formation is the driving force of development (Bruton, 1992). It is argued that the lack of development in developing countries results directly from a shortage of capital, which is a necessary condition for economic growth (Rostow, 1961). For other economists, "the main barrier to development in the peripheral countries is not to be found in the dearth of capital itself but in the absence of creative entrepreneurs" who would l.aunch the country on "a sustained pattern of rapid [economic] growth" (Foster, 2014).

The savings of developing countries are viewed by mainstream economists as insufficient to be invested in a manner that would generate self-perpetuating growth inside those countries; hence, need for foreign capital and foreign aid. The Harrod-Domar growth model postulates a direct relationship between a country's rate of savings, *s*, and its rate of output growth, *g*, via the equation $g=s/k$ where *k* is the national capital/output ratio (Todaro, 1981). David Ricardo's classical theory of international trade claimed that trade would ensure that resources flow to those countries where they would derive the highest return. Ricardian trade theory, it follows, assumed that the rate of return to capital would be higher in the capital poor countries because of conditions of scarcity of capital in such countries. Ricardian theory also claimed that 'diminishing returns' would accompany capital that was invested abroad rather than in the country where the profits were generated.

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Similarly, the Hecksher-Ohlin version of factor-price equalisation argues that there exist in capital-poor countries higher returns to capital which naturally

induces flows of capital from the capital rich to the capital poor until "such returns of factor are equalised" (Todaro, 1981). It is so close to Ricardo's original formulation that it merits the description: 'neo-classical'. The factor-price equalisation theory, according to some critics, is another name for "the Hecksher-Ohlin based belief in foreign financing of development" (Mkandawire, 2002).

Orthodox/mainstream economic theorists contend that natural resources constitute a welcome blessing for the concerned countries (Rostow, 1961). According to this perspective, governments should not interfere in the management of natural resources; rather, governments are counseled to allow market mechanisms to take charge of the natural resource endowment in order to optimise the world's productive resources (Swainson, 1980; 2).

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The concept of 'utility' is a central feature of neo-classical economic thought. Economic man or *homo economicus* is the construct of human behavior which neo-classical economics assumes for mankind universally. Global society is viewed narrowly in the foregoing perspective as a collection of about eight

billion utility-maximising, rational actors. The pertinent issue of what forms the foundations for long-run development in any given country in the world is not a primary subject for investigation in neo-liberal economics; rather, predominant focus is on the conditions that underlie the presence or absence of "effective demand" in the national market being studied (Robinson, 1974; 94-5). The neoclassical scheme is modeled in the terms of an equilibrium position of an economy in a given state of technological knowledge, with new inventions being treated as shocks that bounce an economy from one equilibrium to another (Robinson, 1974).

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Unlike mainstream/neo-liberal economists and classical/orthodox Marxists who hold a positive view of foreign capital inside the economies of developing countries, neo-Marxist/dependency theorists almost without exception tend to view foreign investment as harmful rather than beneficial to host countries (Tucker, 1972; Baran & Sweezy, 1970; Amin, 1977; 2012; Bellamy-Foster, 2014). The contention of orthodox/classical Marxism that peripheral capitalism ensures productivity growth and

economic progress coheres with key precepts of mainstream economics (Warren, 1979; 1980; Munck, 1981).

The basic assumptions of classical economics inform a wide variety of subjects ranging from economics to management theory, to theories of the firm, business strategies and organisational designs. Unlike its contenders, neo-liberal economic thought can rely on global institutions to bring its policy into operation. One such institution is the regime of international investment law. Investment treaties recognise investor rights as a fundamental objective. With over 2,500 treaties now in place all speaking to the subject of 'protecting foreign investments', it is reasonable to expect that room for inconsistency is multiplied from one treaty to the next, rendering the development of a universal body of 'international investment law' problematic or even beyond reach for the world community. The primary aim of in excess of 2,500 investment treaties currently in force, according to critical writers, is to transform legal systems in developing countries to become

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"conducive to market-based investment activities" (Kaushal, 2009; Sornarajah, 2019; Sattorova, 2014).

The main problem with the international investment law regime is arguably the lack of rationality between international investment agreements and policies enacted for the protection of environmental rights and social and economic rights (Kinyua, 2009; Schill, 2017; Steininger, 2018; Sornarajah, 2010; 2019). It is submitted that a biased focus on investor rights exists in international law which seems to co-exist with corresponding inattention to the rights of host countries. Countries bear obligations towards foreign investors arising from the international investment agreements (IIAs) to which they have acceded and under customary international law (Sornarajah, 2019; Kaushal, 2009; Kinyua, 2009). Yet, the idea to include duties for investors in a multilateral treaty is resisted by MNCs and their home States in the global North historically and during contemporary times (Sornarajah, 1992; Sattorova, 2014).

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Between 1962 and 1990, several United Nations bodies undertook a range of initiatives to formulate a

code of conduct for MNCs (Sornarajah, 2010; 2019). Developing countries provided the main engine of attempts to generate a code of conduct for multinationals at the UN level during the period. Between 1977 and 1990, the United Nations Commission on Transnational Corporations (UNCTC) was involved in negotiations on a general code of conduct for MNCs which, it was hoped, would be acceptable to both developed and developing countries, without much success. Efforts by developing countries during the 1960s and '70s to use UN bodies to control MNCs using international law as a tool were opposed by a coalition comprised of the international business sector and developed countries (the home States for the majority of multinational corporations, or simply, the OECD countries) (Sornarajah, 2019). Failure to agree on a code of conduct for MNCs is attributed to suspicions in western countries regarding standards of treatment of foreign investors in developing countries and fears by western countries that new rules would be created on the basis of which host countries could vary the acquired rights of MNCs (Schrijver, 1997).

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Developing countries, with justification, were suspicious about the impact of multinational corporations on their sovereignty, domestic policies and international relations. To cite two examples; firstly, the dethronement of Iran's Prime Minister Mosaddeq in 1956 was orchestrated by the oil multinational *Anglo-Iranian oil corporation* with assistance from UK and US governments and later proved beneficial to *Anglo-Iranian's* commercial interests as opposed to the public interest of Iran (Sampson, 1975). Secondly, the September 11, 1973 coup that deposed the government of Allende of Chile was a collaborative undertaking between the Chilean army led by General Pinochet and the US multinational *ITT,* the financier of that coup (Marini, 2022). Having regard to the power of MNCs and their ability to affect human rights globally in the period between 1945 and 1990, the closure of the UNCTC in 1993 came as a surprise to several scholars (Muradian, 2002). Ironically, in the same year 1993, the United Nations convened a major conference on human rights in Vienna whereby, "the universality, interdependence and indivisibility of

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human rights" was affirmed by the State officials, representatives of international organisations and civil society associations there present.

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5.2 Neo-Marxist political economy and 'late industrialisation'

Neo-Marxist theorists contend that net of flows of capital through foreign investment are in general unfavorable towards capital-importing countries while favoring the capital-exporting centers of the world economy (Bellamy-Foster, 2014; 184). Samir Amin is representative of the neo-Marxist position that views the international economy as a single system, composed of centres and peripheries. Amin notes one major qualitative difference in the set-up of economic systems between peripheral countries and central/metropolitan countries. He argues that there exists a situation of "unequal exchange" between dependent (African, Asian, Latin American countries and their trading partners on the world market, the global North (Amin, 2012).

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"Unequal exchange", according to Amin (1977), refers to "a constant transfer of value toward the centre of the capitalist system due to a greater productivity per unit-wage cost-and hence greater rate of exploitation [and]… precludes the growth of an internal market" in the peripheral State. Thus,

African countries receive low prices for their natural resources such as crude oil, unprocessed minerals and primary commodities such as coffee, tea and cocoa and purchase those resources in processed form at significantly higher prices (Amin, 1977).

Baran is dismissive of orthodox development theory's claim that developing countries suffer from underdevelopment due to shortages of capital. He contends that while such countries do in fact reveal small amounts of actual savings, the potential savings as a proportion of the national income is large enough to enable them to achieve "very high rates of growth" (Baran, 1957). The real problem, according to Baran, is that the potential savings of developing countries are absorbed by five social entities that are generally unproductive, comprised of: (i) a semifeudal landlord class (ii) a merchant economic class (iii) an industrial economic class (iv) foreign capital, and (v) the State.

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Bellamy-Foster (2014) notes that multinational capital insists on the 'freedom to repatriate profits' generated in the host State to a destination of choice such as the headquarters of the MNC or a tax haven,

instead of investing those profits in the same host country that needs and seeks investment capital. Baran subscribes to the view that re-investment of profits by MNCs, as opposed to repatriation, could as well be damaging to the domestic economy of a host country because multinational capital with its international production and marketing system tends to make most of its purchases abroad (Baran, 1957).

Furthermore, according to Baran, foreign investment is ill-advised as it creates disarticulated economies in host countries; "the railways, bridges, ports and power stations" have little linkages with the internal structure of the host country, such infrastructure having been constructed for the benefit of raw material exporters (Baran, 1957). Another demerit of foreign investment is that it promotes the growing of cash crops for export, placing the economies of the concerned host countries in a position of food insecurity which contributes to perpetual dependency (Foster, 2014).

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Baran holds the view that peripheral countries could become viable industrialised countries despite great challenges involved in the process. Amin is more

pessimistic about such an outcome, writing three decades after Baran, he concludes that 'the Japanese road' to industrialisation was closed to other late-industrialising countries at the beginning of the twentieth century. When "metropolitan capitalism" reached the monopoly stage at the beginning of the twentieth century, Amin argues, it would not allow new capitalist centres to develop in the periphery of the world's economic system (Foster, 2014).

Mkandawire submits that despite the large capital gross flows resulting from globalisation, financial markets remain fragmented and country-biased due to such factors as "risk and ignorance" (Mkandawire, 2002; 108). He notes that despite the rates of return of direct investments being higher in Africa than in any other developing region, Africa has not attracted commensurate levels of foreign direct investment. Mkandawire attributes the preceding outcome to "the intangible risk factor" of treating the entire continent as one, known as "the CNN factor", that rates Africa as a risky destination for foreign investment. He notes that underlying economic conditions of most African countries do not warrant such alarmist

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conclusions (Mkandawire, 2002; 110). The unjustified rating of Africa as risky destination for foreign investors leads to segmentation in global markets and means that Africa does not benefit from capital movements. According to Mkandawire, the "pull factors" that draw foreign capital to African countries are of "a transitory nature", they include:

(i) Very high real domestic interest rates on treasury bills occasioned by the need to finance budget deficits

(ii) Favourable weather conditions and temporary booms in export prices

(iii) Speculative capital flows (Mkandawire, 2002: 110).

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Mkandawire notes that poor countries have worse "production functions" than developed countries, meaning that the marginal product of capital in the former countries is not "as high as their low capital-labour ratios would suggest" (Mkandawire, 2002; 107). He contends that if one considers such factors as economies of scale, risk and political stability that are not taken to account by classical and neo-classical trade theory, rates of return are bound to be

higher in developed countries rather than in capital-poor countries. He accuses classical trade theory first postulated by David Ricardo of making "extremely unrealistic assumptions about technology, information" among other factors (Mkandawire, 2002; 107). He is critical of statements made by officials of the World Bank to the effect capital flight out of Africa is not such a negative outcome owing to the low returns available on the continent. He finds in such assertions sufficient evidence that the international financial institutions (IFIs) pay lip-service to the cause for more investment into Africa as captured in Structural Adjustment Programs (SAPs) (Mkandawire, 2002; 113).

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Turning to the fundamental objectives of attracting FDI which is to support the long-term development goals of export growth, technology transfer and employment creation, he advocates for domestic savings as the most viable means to cover the bulk of investment which the continent needs to achieve growth of about 7 per cent (Mkandawire, 2002; 115). Mkandawire's argument runs as follows: were Africa's total savings to return to the levels they were

in the 1960s and 1970s, which is more that 24 percent, African countries would have at their disposal more than 180 billion US dollars for investment compared to only 9 billion US dollars in FDI flowing to the continent in 1997. The difference between FDI and domestic savings is more than twenty times greater.

To follow Mkandawire, the emphasis for Africa's economic policy in general and industrial policy in particular, should be *to generate savings domestically and at least bring them to the levels witnessed in the 1960s and '70s, not the pursuit of foreign investment*.

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By way of comparison, the savings rate in Asia where rapid growth has been observed in countries such as Malaysia is about 28 percent while for Africa the savings rate averaged 13 percent in the 1990s down from 24 percent in the 1960s (Leechor, 1994; 174). Sub-Saharan Africa's gross domestic investment rate during the 1990s was about 15 percent of GDP which is lower than in high-growth Asian countries with a rate of 22 percent in the 1960s (Leechor, 1994; 175).

Like Mkandawire, Marais holds a negative view about the financial liberalisation policies adopted by a majority of African countries and notes that the abolition of capital controls in the late 1990s resulted in capital flight from South Africa (Marais, 2001).

Mkandawire underscores that the traditional policy-based tools used by countries to mobilise domestic resources for self-financing such as constraints on consumption, taxation and control of capital flows are disallowed by the neo-liberal economic policies imposed upon African countries by the IFIs and western countries since the early 1980s (Mkandawire, 2002; 118).

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Reinert (2009) views free trade theory as abstract "high theory" that is only permitted to determine the policies of the poor world. Although openly eschewing Marxist theory, Reinert (2009) strikes common ground with Mkandawire in his verdict that poor countries in nineteenth century Europe managed to industrialise through the use of tariffs to protect their young industry, while others used a combination of tariffs and subsidies. In his view, global free trade has been "a chimera" and those who

adhered to it the least at crucial moments of their history became the world's most successful economies:

> In the past, a period of protecting a manufacturing sector has been mandatory for all presently rich nations. The educational function of this period is emphasised by the term 'educational tariffs' (Erziehungszoll, oppfostringstoll) used in Germanic languages. The English term used to be 'infant industry protection', which was something virtually everyone understood was necessary (Reinert, 2009; 57).

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He indicts the argument of standard economics which aims to show that wealth is strongly correlated with openness of economies. Reinert projects that as long as the second wave of globalisation which began in the 1990s builds on the same principles as

the first wave which he dates to the 1850s, and poor countries continue to specialise in the production of raw materials, it means that contemporary globalisation cannot achieve any more than its predecessor. The end result of ongoing globalisation would be polarisation; i.e., an increase in the difference in wealth between rich and poor, even though some countries from the camp of the poor may join the club of the rich (Reinert, 2009; 57-8). Reinert does not rule out the possibility that in a sea of arrested development comprised of the majority of developing countries, a few exceptional countries could achieve industrialisation, similar to the experience of the Asian Tigers during the 1970s and 80s. He concludes that industrial Africa is fragmented and while some countries are seemingly better off than others, each national market is relatively open to killing competition from the global North (Reinert (2009, 62).

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Moyo underscores that foreign direct investment (FDI) has tended to favour MNCs as the means of entry into the continent and, more importantly, has

not enhanced the welfare of Africans. She draws a distinction between two types of FDI, as follows:

(i) FDI that enhances national welfare;

(ii) FDI that contributes to corporate profits but does not improve the national welfare.

She stresses that most of the 'transnational capital coming into Africa' has tended to benefit from "long-tax holidays, subsidies and benefits of repatriation of dividends and profits" and concludes that "historically Africa has been exploited by multinational corporations and other forms of foreign capital" (Moyo, 2002).

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> In regard to FDI, Africa has for years received transnational capital, which mainly went into large scale commercial agriculture, forestry, mining and to some extent, manufacturing (extractive industries). While TNCs brought in a lot of new technology and know-how, it is widely acknowledged that they were the net beneficiaries of the

> partnership. They exported and, in many countries, still continue to export primary commodities under unequal terms of trade and this has disadvantaged developing economies (Moyo, 2002).

Tandon understands FDI to be a separate phenomenon from both capital and money. He is critical of some of the "experts and policy makers" who tend to "conflate" all three categories. FDI is understood by Tandon as follows: "FDIs are a package of capital, technological know-how, management specific to a particular type of production of goods or services, market knowledge and access, and contacts" (Tandon, 2002).

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In reply to his own question: "What will foreign capital do that it has not been doing for all these decades [in Africa]?" Tandon argues that the question is not whether Africa needs capital; rather, what matters, in his view, should be the origin, purpose and conditions attached to any form of capital seeking to enter Africa. He cautions African

countries that are potential recipients of FDI to "unbundle the FDI package," and where this is not possible, "to monitor and control its use carefully" (Tandon, 2002). The general conclusion is that "there are no good or bad FDIs outside of national policy, and in terms of hard negotiations with the owners of capital" (Tandon, 2002).

Yash Tandon offers a negative verdict with respect to foreign capital operating in Africa, in similar vein to Amin, Marais, Mkandawire, Moyo and other scholars referred to above. According to Tandon, domestic capital is preferable to FDI to fund late industrialisation. He differentiates between 'self-reliance' by African countries themselves and what he terms 'FDI reliance'; he contends that if resource-rich African countries "such as Nigeria" did not "externalise" a big part of the national savings "through legal or illegal means", FDI would be entirely unnecessary (Tandon, 2002).

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The neo-Marxist school contends that foreign capital engages in both direct and indirect exploitation in underdeveloped countries. The overall lesson drawn from the preceding neo-Marxist theorists can be

framed as follows: African countries would be unwise to rely upon primary commodity production as a foundation for their own industrialisation.

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